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ECONOMIC AFFAIRS

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6 OCTOBER 1986

# USSR REPORT ECONOMIC AFFAIRS

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## INVESTMENT, PRICES, BUDGET, AND FINANCE

### SELF-FINANCING EXPERIMENT, PRICE, PROFIT QUESTIONS ANALYZED

#### Sumy NPO Experiment Reviewed

Moscow EKONOMICHESKAYA GAZETA in Russian No 18, Apr 86 pp 11-14

[Group of articles prepared by V. Moskalenko, I. Mudragel, and N. Prikhodko: "Self-Financing as the Road to Development of Initiative"; first paragraph is epigraph from the Policy Report of the CPSU Central Committee to the 27th Party Congress]

[Text] "Enterprises need to be given the opportunity--following the example of VAZ and the Sumy Machinebuilding Plant--of earning on their own the resources necessary for expansion and the technical updating of production."

The new methods of carrying on business activity underwent further development at the Sumy NPO imeni M.V. Frunze. The association has been converted to self-financing. The Sumy experiment was aimed at broadening the rights of the association in its planning and economic activity, at strengthening responsibility for the final results of operation, and at strengthening cost accounting [khozraschet].

The system of self-financing has imparted great dynamism to the work of the collective, has set initiative free, and has increased the efficiency of work. Experience has shown that this kind of system operates as a mechanism combating costs.

#### 1. The Conditions of the Experiment and the System of Standards

The conditions for the conduct of economic activity to which the Sumy Machinebuilding Scientific-Production Association has been converted since 1985 help to create in the work collective a particular interest in utilizing all potential for production.

The experiment was aimed at achieving high final results in the activity of the collective by virtue of the following:

- i. the enterprise's conversion to self-financing, including the financing of capital investments for retooling, reconstruction, and new construction related to expanding existing enterprises and production operations of the association with its own resources;



ii. the application of stable rates for payments from profit to the state budget that are established in advance for the years of the 5-year planning period;

iii. the application of stable transfers directly from profit to economic incentive funds which are established in advance for the years of the 5-year planning period;

iv. expansion of the association's rights in financing the development of production and in raising its technical level with the funds of the association, whose size depends on the total amount of profit realized.

These conditions orient the association's collective to make maximum use of its capability and internal potential to increase production efficiency and to obtain an ever larger amount of profit. Taking into account that output in physical terms is regulated in a centralized manner by the state plan in keeping with the requirement of the national economy, while its value is regulated by state pricing policy, the realistic directions for augmenting profit are to achieve a high level of utilization of production capacities and larger output on that basis, raising labor productivity, reducing production cost, and improving the quality of performance of all members of the work collective.

Why was the Sumy Association chosen for the conduct of this experiment?

In the course of the last three 5-year planning periods a mechanism was built up there aimed at increasing the motivation of every member of the collective to achieve high final results. The essence of the composite system that took shape in the association lay in applying new methods of evaluating and stimulating labor on the basis of norms that determined the maximum possible attainment along the principal directions of production activity. In the Sumy NPO the departments for economic statistics, supply, finance, and sales and the accounting and auditing services were centralized. The association was made directly subordinate to the ministry.

The association was assigned exactly the same basic indicators of performance for the year and for the 5-year plan as other enterprises in the branch operating under the new economic conditions. They included (in the 5-year plan) the production of principal products in physical terms, including products representing new technology and products for export; the rise of labor productivity, calculated with respect to normative net output; the relative share of output in the superior-quality category in the total volume of output; and the growth rates of commodity output (computational). A distinction was created only in the financial indicators: in the annual and 5-year plans the association was assigned a target for profit instead of the maximum level of costs per ruble of commodity output. This marks a fundamental change in planning. The indicator of marginal cost per ruble of commodity output is an intermediate result which is obtained as a result of the output of finished products; it does not include the process of shipping and sales.

The target assigned for profit can be fulfilled only provided it is timely and in accordance with contracts concluded for shipment of products and the process

of selling products has been performed. Moreover, the profit of the NPO reflects income and losses other than sales (fines, penalties, and forfeits), as well as profit (losses) from the results of activity of nonproduction subdivisions of the association: subsidiary farming operations and construction repair organizations.

The principal lever for the rise of labor productivity in the association is application of the measures of scientific-technical progress. To be specific, a system has been set up for breaking down to production operations, shops, sections, and brigades targets for reduction of labor intensiveness by application of these measures, and work stations are subject to certification and optimalization.

The conditions of the experiment were aimed at enhancing the role of economic standards as an important lever whereby the 5-year plan exerts an influence on the economic performance of enterprises.

The essence of the standard itself has been fundamentally altered. As is well known, under the new economic conditions incentives are based on the growth of indicators. But the rates of the incentives "based on growth" do not take into account the level of performance achieved and thereby place in a better position those enterprises which possess more untapped potential. In the Sumy Association the rates of transfers to economic incentive funds have been established not for the growth of indicators, as was the case in other enterprises of the branch, but in percentages of the total amount of profit (remaining at the disposition of the association), which guarantees a motivation to improve and increase the indicators.

Formation of economic incentive funds at rates applied to the volume of profit is one of the important progressive conditions of the experiment.

In addition, the sphere of application of norms was expanded, rates of deductions from profit to the state budget and the ministry and the rate used in formation of the unified fund for development of science and technology were fixed.

When the new standards were put into effect, the rights of the work collective in use of profit were broadened. It is important that the association is assigned a rate of transfers from profit to the state budget that is stable over the years of the 5-year planning period. In order to improve the use of the production potential the rate of transfers to the state budget is set at progressively higher rates from year to year of the 5-year period. At the same time the charge on assets has been done away with. The rates of transfers to the state budget from the total amount of profit assigned to the association for the 12th Five-Year Plan are as follows: 27.1 percent for 1986, 27.7 percent for 1987, 28.5 percent for 1988, 29.2 percent for 1989, and 29.8 percent for the year 1990. The rate used to build up the material incentive fund from the profit remaining at the disposition of the association is 18 percent, that for the fund for social welfare and cultural measures and housing construction is 7.9 percent, and the production development fund 30.2 percent. The rate used for formation of the unified fund for development of science and

technology has been set at 1.9 percent of the volume of marketed output, and the rate of transfers to the ministry is 10 percent of the growth of profit.

And yet another standard rate. For every percentage point of growth of normative net output the rate of growth of the wage fund is 0.3 percent of the base wage fund of industrial production personnel proper.

#### Standard Rates Established Under the New Economic Conditions

For Associations and Enterprises  
in the Sector

For the Sumy NPO imeni M.V. Frunze

#### With Respect to Labor and Social Development

Standard rate of growth of the wage fund of industrial personnel proper of existing production associations (enterprises) for each percentage point of growth of net (normative) output

Same

Rate of growth of the material incentive fund of existing production associations (enterprises)

Rate of formation of the material incentive fund for existing production operations

Rate of growth of the fund for social welfare and cultural programs and housing construction of existing production associations (enterprises)

Rate of formation of the fund for social welfare and cultural programs and housing construction for existing production operations

#### With Respect to Capital Construction

Rates of growth of the production development fund (out of profit and from depreciation deductions for full replacement of capital assets)

Rate of formation of the production development fund from profit. Depreciation intended for replacement of capital assets is entirely included in the development fund

#### With Respect to Finance

Rate of transfers from calculated profit to the state budget (assigned only in the annual plan)

Rate of transfers to the state budget from profit  
Rate of transfers to the ministry from the growth of the association's profit

#### With Respect to Application of New Technology

Rate of formation of the unified fund for development of science and technology (for the ministry)

Rate of formation of the unified fund for development of science and technology, including that which is left at the disposition of the association



## 2. Distribution of Profit

A procedure was established in the conditions of the experiment whereby the profit the association realizes is distributed between the state budget, the association, and the ministries at rates which are stable and which are set in advance for the years of the 5-year planning period.

The profit remaining after transfers to the budget and payment of interest on bank credit used is left to the disposition of the association. Deductions are first made from it at stable rates for transfer to the association's economic incentive fund (the material incentive fund, the fund for social welfare and cultural programs and housing construction, and the production development fund), as well as for the unified fund for development of science and technology. The profit remaining after transfers to these funds is committed to the financing of capital outlays for reconstruction and expansion of production, to cover the association's other planned expenditures (for example, the financing of children's preschool institutions, the Culture Center, Pioneer camps, and other trade union buildings and installations), and for contributions to the ministry at the rate established.

The remainder of undistributed profit is assigned in the plan and the report to the production development fund over and above the established rate. This guarantees the association authentic independence in use of the resources it has earned.

In 1985, for example, the collective used about 70 percent of profit, or more than 40 million rubles, for its own needs, and on that basis the association covered all its outlays.

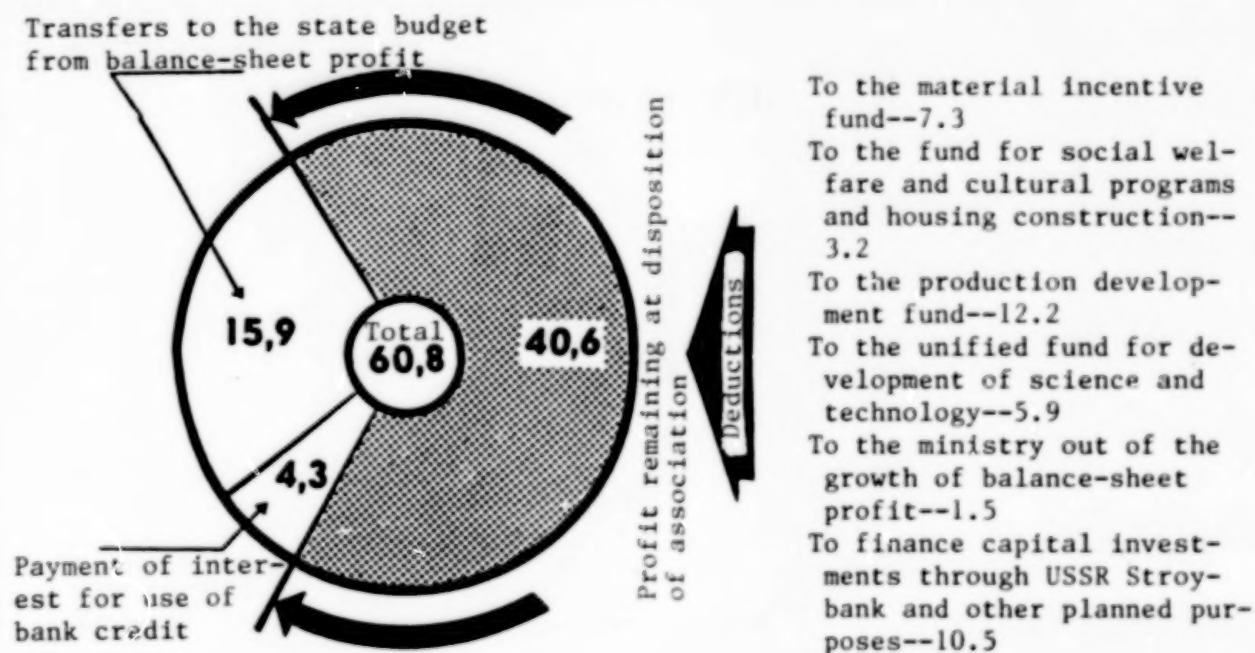
Neither the ministry nor the state budget had the right to take these resources away from the association. At the same time the association was also unable to obtain anything more from the state budget or the ministry beyond the resources it possessed. The right to take long-term credits from USSR Stroybank (borrowed resources) to meet the needs of capital construction was retained by the association, but the association must make repayment for these credits in the regular way from its own sources (profit, the development fund, and the fund for social welfare and cultural programs and housing construction).

And only construction of new enterprises within the association is financed from centralized sources, since these enterprises are mainly built on the initiative of the state for production of a new product which previously was not a part of the association's specialization (for example, construction of a plant within the association to make drill collars and grief stems). The association's relations with the state budget are built on the basis of stable rates established for the 5-year period which become progressively higher from year to year within that period. Society thereby receives a constantly increasing share of the profit obtained from results of the association's activity, while the association's collective knows in advance the planned relative and absolute size of the payment. This represents an important distinction of the conditions set down in the Sumy experiment by contrast with those adopted

for the other enterprises in the sector (under the new economic conditions there is no guarantee of payments into the state budget stipulated in advance, since the rate of the charge on assets is not stable, and the rate of transfers from calculated profit to the budget is also random in nature).

In the Sumy Association the rate of transfers to the state budget is determined from the relationship that occurs in the plan of the base year, the year preceding the experiment, between the size of profit and total transfers to the budget on the basis of the charge on productive capital and the contributions of the undistributed remainder. The progressive increase from year to year of the 5-year planning period is taken at 20 percent of the growth of profit according to the plan for the given year. For 1985, for example, the rate of transfers to the budget from profit was set at 26.2 percent, as compared to 25 percent in 1984. Payments into the budget increased 38.2 percent over 1984.

Distribution of Profit in 1985 (millions of rubles)



Under the conditions of the experiment relations with the ministry are also put on a normative basis. The payments from profit based on standard rates must motivate the ministry to increase the association's profit, which helps to speed up the taking of managerial decisions and promotes a vigorous effort to achieve full employment of production capacities and to raise the technical level of production and the product.

The profit distribution mechanism is simple, straightforward, and understandable to every member of the work collective (see the table).

For example, in 1985 29 kopecks out of every ruble of profit went to the budget and the ministry, while 71 kopecks went for internal purposes.

## Distribution of Profit by Purposes

1985

Indicator	Per Ruble of Profit	Growth of Profit by 1% (thousands of rubles)		
		Growth of Volume of Output	Reduction	
			Of Supplies and Fuel and Energy Resources	Of Labor Inten- siveness
Profit	1 ruble	960	490	210
1. Transfers to the state budget and to the min- istry	29 kopecks	280	140	60
For internal purposes	71 kopecks	680	350	150
2. For capital outlays for retooling and expansion of production, develop- ment of production, and science and technology	45 kopecks	440	230	100
3. For material worker in- centives	15 kopecks	140	70	30
4. For social welfare and cultural programs and housing construction and facilities for social, cultural, municipal, and consumer services	11 kopecks	100	50	20

Economy took on an altogether concrete expression in the collective's income. Every percentage point of cost reduction brought a specific amount of resources into its treasury. These rates are so structured that most of the resources remaining at the association's disposition (45 kopecks out of 71 for every ruble of profit) is committed to capital construction and long-term development; that is, these resources "are not eaten up."

[Box, p 12]

Excerpt From the Regulation on the Normative Method of Profit Distribution in the Sumy NPO imeni M.V. Frunze

Beginning in 1985 the 5-year plan for economic and social development of the association shall fix the rate of transfers to the state budget in percentages of profit, assuming its progressive increase from year to year of the 5-year planning period.

The rate shall be fixed in percentages of profit on the basis of the ratio that occurred in the 1984 plan between the total amount of payments to the budget out of profit (the charge on fixed productive capital and working capital subject to standard allowances and transfers from profit) to the total amount of planned profit, assuming progressive growth from year to year.

The progressive growth from year to year is determined from the growth of profit of the year being planned at the rate of the previous year increased by 20 percent.

The rate of transfers to the profit fixed in the 5-year plan shall not be subject to amendment or revision in annual plans.

### 3. Self-Financing as a Method for Optimum Economic Performance

As is well known, under the new economic conditions capital investments for retooling, reconstruction, and expansion of existing enterprises and for construction of new ones are financed from sources of all types: "own" resources, borrowed, from the sector, and from the budget. Capital investments for construction of nonproduction facilities are also financed from all types of sources: housing construction and construction of facilities for social, cultural, municipal, and consumer services.

A different procedure has been adopted in the Sumy Association. In order to increase the association's independence and responsibility for technical improvement of fixed capital and for the maximum utilization of existing capacity, it is provided that retooling of production shall be done within the limits of the association's own resources from the production development fund and also with long-term credits of USSR Srobybank, to be repaid subsequently from that fund.

Sources of Financing of Capital Investments in the 12th Five-Year Planning Period (millions of rubles)

Capital Investments by Purposes	Total	"Own" Resources			Borrowed Resources-- Long-Term Credit of USSR Srobybank
		Profit	Depre- ciation	Other	
1. Capital investments for construction of production facilities	273.6	126.1	102.1	10.7	34.7
Breakdown:					
Reconstruction and expansion of ex- isting production operations	98.2	37.5	20.3	10.7	29.7
Retooling	175.4	88.6	81.8	--	5.0
2. Capital investments for construction of nonproduction facili- ties	59.2	59.2	--	--	--
Total	332.8	185.3	102.1	10.7	34.7

Thus here the sources of financing are confined to "own" resources and borrowed resources--profit and long-term credits of USSR Srobybank. Neither sectoral nor budget appropriations may be used to finance capital investments aimed at reconstruction and expansion of existing production operations.



Since the total amount of depreciation intended for replacement of capital assets goes into the production development fund, the association is allowed to commit even the resources of this fund to the financing of reconstruction and expansion of existing production operations if that is necessary.

Sectoral and budget resources are allocated only to finance construction of new enterprises within the association.

Under the conditions of the experiment the work collective must perform so as to guarantee the coverage of all its expenditures and finance the association's development on its own. The association's own resources represent the only source of financing for development: profit and depreciation. The expenditure of every ruble of these resources is clearly committed.

In the context of self-financing a production development fund of significant volume is built up from deductions from profit, the full amount of depreciation intended for replacement of assets and proceeds from retired property. In addition, the remainder of undistributed profit as shown in the plan and the report over and above the assigned allowance is credited to the production development fund. Thus in the Sumy Association, retooling, reconstruction, and even new construction that involves expansion of existing enterprises and production operations is financed from internal resources. Thus the association pays into the budget approximately 30 percent of profit, while it commits 70 percent to its own purposes, to the development of production. In the AvtoVAZ Association expansion and new construction are financed with resources from the state budget. That is why contributions to the budget there represent approximately 50 percent.

In order to improve responsiveness in solving problems related to the technical improvement of production, the Sumy NPO was granted the right in compiling its plans to redistribute resources between the production development fund and the unified fund for development of science and technology. This makes it possible to improve the system for financing measures of scientific-technical progress.

#### 4. Further Elaboration of Cost Accounting Within the Plant

The principal materials on methods were drafted in the association and the calculations made for the medium-term period back during the period of preparation for conversion to the conditions of the experiment.

If the experiment was to work, the normative documents, regulations, and instructions had to be spelled out in detail by subdivisions. The procedure for determination and computation of the indicators of the financial plan was revised on the basis of the basic principles and regulations for the enterprises and organizations of which the association is made up, and changes were made in the method for financing and credit financing of capital investments.

The association's conversion to self-financing required above all a further elaboration of cost accounting at the plant level.



The performance indicators of cost-accounting subdivisions were revised to bring them closer to the indicators used for appraising the performance of the association. One of the principal indicators used in evaluating the results of the association's economic activity under the new conditions of operation--the volume of sales adjusted for fulfillment of obligations under contracts--was broken down to each shop, section, and brigade. This indicator was broken down to brigades by planning production targets in brigade-assemblies rather than in quota-hours, as had previously been the case. Now about half of all the piece-rate workers work on the basis of brigade-assemblies.

Fulfillment of the plan for deliveries under contract is the basic indicator for awarding bonuses to ITR and employees of all the association's structural subdivisions. The bonus is not paid unless it is fulfilled.

The collective has been paying particular attention to reducing production cost. A more vigorous effort has been made to improve recordkeeping, to apply cost standards, to calculate sound limits on consumption of raw materials, supplies, production gear, and tools. Personal conservation accounts are being introduced in the association; in 1985 about 40 percent of all personnel had them.

The conditions for self-financing has predetermined an uncompromising approach to the financial liability of subdivisions and operatives for an economic loss incurred (substandard workmanship, overexpenditure of physical and labor resources, penalties, and other unproductive losses adversely affecting fulfillment of the association's profit plan).

Fines (ranging from 5 to 10 percent of the total amount of the loss) are withheld from the bonus credited to the collective of the subdivision on the basis of the basic results of economic activity.

The bonus to which collectives of subdivisions are entitled may not in this case be reduced by more than 50 percent, but the individual workers who are responsible for the violation may be deprived of it entirely. The cost-accounting commission of the association makes the final decision on the size of the bonus reduction for a loss incurred.

Substantial changes have been made in the bonus system of the association's personnel. It is based on the principle: the size of the bonus of every worker depends on his personal contribution to the final results of the collective's performance.

The personnel of the principal and auxiliary production operations are awarded bonuses for performance on time and up to standard of production targets stated in terms of items on the products list. The size of the bonus varies from occupation to occupation as a function of the conditions of production and working conditions and the complexity of the product produced, and it varies within the limits from 10 to 40 percent of the piece-wage rate (of the monthly wage rate for time-rate workers). In the case of production brigades for which the target has been broken down in brigade-assemblies, the bonus is envisaged at a level 15-20 percent higher.

One of the principal factors guaranteeing fulfillment of assignments for the rise of labor productivity is that the target for reduction of labor intensiveness is broken down to production operations, shops, sections, and brigades.

The system of worker incentives calls for the payment of bonuses if labor intensiveness is reduced out of the saving on the wage fund achieved by applying organizational and technical measures. Piece-rate workers are awarded a bonus for reduction of labor intensiveness relative to the piece-wage rate (up to 10 percent depending on the level of fulfillment of the target broken down to that level). Fulfillment of the assignment is cumulatively recorded from the beginning of the year, and the actual reduction of labor intensiveness achieved by applying the measures contained in the plan for increasing production efficiency is included in the report.

Piece-rate workers are awarded bonuses from the material incentive fund for achieving high product quality.

ITR and employees of the association's shops and services are paid incentives for fulfillment and overfulfillment of plans (targets) for two indicators: deliveries of products in accordance with contracts concluded (monthly schedules within the established intervals) and for the rise of labor productivity (for ITR and shop employees--the plan for the size of the economic benefit from application of organizational and technical measures).

The work contribution made by shop personnel, ITR, and employees is evaluated as a function of achievement of the standards assigned for utilization of production capacity and product quality. The size of the bonus is determined from a special differentiated scale (see the table).

#### Scale for Machine and Mechanical Assembly Shops

Coefficient of Utilization of Rated Production Capacity	Size of Bonus, Percentage of Salary, Depending on Quality Coefficient			
	From 0.96 up		Under 0.96	
	Production Personnel	Shopwide Personnel	Production Personnel	Shopwide Personnel
Less than 0.80	30	25	28	20
From 0.81 to 0.84	33	28	28	23
From 0.85 to 0.88	37	32	32	27
From 0.89 to 0.92	41	36	36	31
From 0.93 to 0.96	45	40	40	35
From 0.97 to 1.00	50	45	45	40

The personal contribution of each engineering-technical worker and employee to the final results of the collective's work is recorded on his personal card. Indicators used for incentives and bonus reduction are entered on it.

Today success cannot be achieved unless there is a well-organized effort to conserve all types of resources. That is why a number of regulations have

been drafted in the association on the awarding of bonuses to the personnel of shops, divisions, and administrations for conservation of physical resources, for optimum utilization, for collection, storage, and sale of production waste, and for recovery and reuse of containers. Bonuses are awarded on the basis of deductions of certain proportions of the value of the resources saved. The bonuses are paid to the personnel of shops for direct participation and promotion of application of conservation measures.

A regulation has also been drafted and put in effect in the association concerning supplements to the wage rates of workers and to the salaries of ITR and employees for high qualifications. The supplements are awarded depending on the work contribution of the workers, and the opinion of work collectives is consulted.

[Box, p 13]

Excerpt From Conditions for Conversion to the Economic Experiment of the Sumy NPO imeni M.V. Frunze

Beginning in 1985 the following are to be stated in 5-year plans for the association's economic and social development:

- i. the rate of growth of the wage fund for industrial production personnel proper for each percentage point of growth of normative net output;
- ii. the rate of deductions from profit to the state budget;
- iii. the rate of deductions from the growth of the association's profit payable to the ministry;
- iv. the rate of formation of the unified fund for development of science and technology, including that which is left at the disposition of the association;
- v. the rate of formation of the material incentive fund for existing production operations;
- vi. the rate of formation of the fund for social welfare and cultural programs and housing construction for existing production operations;
- vii. the rate of formation of the production development fund out of profit.

The rates are set for the economic incentive funds in percentages of the profit left at the disposition of the association after deductions to the state budget and after interest is paid on bank credit on the basis of the respective ratios envisaged in the plan of the base year.

The rates established in the 5-year plan shall not be subject to amendment or review.

## 5. New Procedure for Formation of Economic Incentive Funds

Economic incentive funds are formed in the Sumy Association at stable rates applied to the profit left at the association's disposition, rather than for the growth of indicators, as is the case at other enterprises in the sector.

The level of the rates for formation of economic incentive funds is established on the basis of ratios that occurred in the plan of the base year, 1984, between those funds and profit remaining at the disposition of the association after transfers to the state budget and after payment of interest on bank credit.

Provision has been made that the material incentive fund, which is computed by applying the rate to the total amount of profit, must be limited to the ratio of the growth of the average wage per percentage point of growth of labor productivity assigned to the association. If in the planning computations the assigned ratio is exceeded, then the corresponding amount of the material incentive fund formed at that rate from profit is transferred to the fund for social welfare and cultural programs and housing construction. More than 600,000 rubles were transferred to the fund for social welfare and cultural programs and housing construction from the material incentive fund of the association for this reason in connection with computation of the plan for 1985.

The collective's accountability for fulfillment of deliveries under contracts and fulfillment of the plan for labor productivity is greatly augmented under the conditions of the experiment. After all, sources of additional transfers for fulfillment of the delivery plan to the material incentive fund and for fulfillment of the plan for labor productivity to the fund for social welfare and cultural programs and housing construction were provided for in advance in the plan for distribution of profit in the standard necessary proportions (out of the profit left at the disposition of the association). The budget and the ministry obtained their standard share from planned and above-plan profit, and fulfillment of plans with respect to these indicators was stimulated on the basis of the profit going to the association's needs. The procedure that has been adopted stimulates fulfillment of plans for product deliveries and labor productivity and at the same time encourages increasing the plan for the size of profit. In order to give the collective additional motivation to raise labor productivity, it has been provided that the fund for social welfare and cultural programs and housing construction is to be increased by 10 percent for fulfillment and overfulfillment of the plan with respect to this indicator. For each percentage point of underfulfillment of the plan for labor productivity the fund for social welfare and cultural programs and housing construction is reduced by 4 percent. Thus if the plan for labor productivity is underfulfilled by 1 percent, transfers to the fund for social welfare and cultural programs and housing construction are reduced by 14 percent, which is a sizable loss for the collective.



## Standard Rates Established Under the New Economic Conditions

For Associations and Enterprises  
in the Sector

For the Sumy NPO imeni M.V. Frunze

### a) Material Incentive Fund

Total amount of the material incentive fund of the previous year plus growth according to the rate for each percentage point of reduction of the marginal level of cost per ruble of marketed output

On the basis of a rate stated in percentages of the profit left at the disposition of the enterprise

At a rate stated in percentages of the planned material incentive fund for the growth of consumer goods per ruble of the wage fund

Same

For fulfillment of the plan of product deliveries in rates applied to the planned material incentive fund

Same

### b) Fund for Social Welfare and Cultural Programs and Housing Construction

Total amount of the fund for the previous year plus the growth at a rate for each percentage point of the rise of labor productivity

At a rate stated in percentages of the profit left at the disposition of the association

At a rate applied to the planned fund for social welfare and cultural programs for reduction of material costs per ruble of marketed output

At a rate applied to the planned fund for social welfare and cultural programs for fulfillment of the plan for labor productivity

### c) Production Development Fund

Total amount for the previous year plus growth at the standard rate for the growth of profit

At a rate stated in percentages of the profit left at the disposition of the association

Sum total for the previous year plus the growth at a rate for the growth of depreciation earmarked for full replacement

Total amount of depreciation earmarked for full replacement

[Box, p 14, top]

Excerpt From the Regulation on Formation and Use of the Resources of Incentive Funds in the Sumy NPO imeni M.V. Frunze Under the Conditions of the Economic Experiment

The material incentive fund of the association is formed according to the plan for the coming year at a stable rate from the planned total amount of profit



remaining at the disposition of the association after transfers to the state budget and payment of interest on bank credit. The stable rate is fixed for the years of the 5-year planning period on the basis of the ratio that occurred in the plan of the base year between the material incentive fund and the profit left at the disposition of the enterprise.

## 6. The Experiment's First Results

The collective of the Sumy NPO imeni M.V. Frunze is now in its 2d year of operation under the conditions of the experiment. The results indicate the high effectiveness of the new economic methods.

In 1985 labor productivity rose 13.6 percent over 1984, instead of the 10.3 percent called for by the plan; profit rose 32 percent instead of the 28.6 percent called for by the assignment. Costs were brought down 3.1 percent, which was also more than called for by the plan. Obligations related to product deliveries were fulfilled at a level of 100 percent.

The association has also had high rates of development in the present year, 1986.

On the basis of results in the principal activity in 1985 2 million rubles of above-plan profit were realized, as follows:

- i. by virtue of overfulfillment of the sales plan--200,000,
- ii. by virtue of above-plan reduction of production cost--600,000,
- iii. by virtue of the surplus of income other than from sales over the related costs--1.2 million.

The conditions of the experiment create incentives for speeding up the creation and application of new technology and for reducing product design time. The funds set aside for retooling have been used to build sections furnished with up-to-date equipment for machining, galvanized coating, gas-heat strengthening of parts and for flame powder coating, and outdated and worn-out equipment has been replaced.

The rise of labor productivity by raising the technical level of production and improving its organization amounted to 5.9 percent in 1985. The relative share of output bearing the state Quality Emblem reached 60 percent of the total volume of marketed output.

The principle of the self-financing of production, which was laid down in the conditions of the experiment, has made it possible to change the relationship among "own," budget, and borrowed resources committed to developing the production and social development of the association. For instance, whereas in the period 1981-1984 "own" resources represented 31.2 percent of the total volume of these resources on an annual average basis, in 1985, if borrowed funds repaid from internal sources are included, the figure was 89.5 percent.

In 1985, when the total growth of profit was 32 percent, transfers to the budget increased 38.2 percent. At the same time transfers to economic incentive funds increased. There was a substantial increase in the size of the labor force receiving supplements and premiums added to the wage: from 494 persons in 1984 to 1,416 persons in 1985.

Much has changed in a year in the collective's social development. Expenditures to improve working conditions from all sources of financing increased 6.5 percent. Travel vouchers for medical treatment, prevention, and rest and recreation of workers received 773,000 rubles in 1985, which is 24 percent more than in 1984. Housing construction in 1985 amounted to 16,900 m<sup>2</sup>, children's multiservice centers were built to accommodate 280, the children's department of the polyclinic was built, and construction of a swimming pool at the recreation facility was completed.

Here are a few figures on subsidiary operations: construction included 7 duplex houses for machine operators, 2 livestock-raising projects, and a greenhouse with an area of 15,000 m<sup>2</sup>. In 1985 the association's farm produced 405 tons of meat, 150 tons of vegetables, and 15 quintals of honey. Meat production rose 14.4 percent over last year.

The association's plan for the 12th five-year planning period envisages a 1.6-fold higher growth of labor productivity than in the 11th five-year planning period. The volume of profit is 2.7-fold greater, and transfers to the state budget will increase 4.5-fold.

An important point is that an additional section of the plan entitled "Calculations Related to Self-Financing" has for the first time been introduced at the association in compiling the 5-year plan. This section is not provided for in the standard method of plan compilation. The methods of calculating it have been worked out within the association.

The year of operation under the conditions of the experiment has also raised a number of problems whose solution depends on central departments and the ministry.

First of all, there ought to be a reduction of the number of planned indicators (there are more than 200 of them even under the conditions of the experiment), and the association should be afforded the possibility of utilizing more fully the resources of the fund for social welfare and cultural programs and housing construction and also the production development fund which it has earned and to implement in practice the decision made by policymaking bodies that physical resources and limits of capital investments be provided to fully cover the resources of these funds. It is also indispensable to broaden independence and thereby increase responsibility of the association in use of the material incentive fund. And finally, one other question of paramount importance--breaking down the production plan for the detailed product list to the association in good time. The collective must have an opportunity to make sound material and technical preparations for production.

[Box, p 14, bottom]

Excerpt From the Conditions for Conversion of the Sumy NPO imeni M.V. Frunze to the Economic Experiment

In order to increase the independence and responsibility of the association for technical improvement of fixed capital it is hereby provided that the re-tooling of existing enterprises and production operations subordinate to the association is to be done from the production development fund and long-term credit of USSR Srobybank, which is to be repaid with the resources of that fund (including the payment of interest on this credit).

The financing of capital investments for reconstruction and expansion of existing enterprises and production operations subordinate to the association is to be done out of the profit remaining at the disposition of the association and also with long-term credit of USSR Srobybank, which is to be repaid out of profit.

The association has been granted the right to commit a portion of the resources of the production development fund to these purposes if necessary.

Value Indicators Assessed

Moscow EKONOMICHESKAYA GAZETA in Russian No 23, Jun 86 pp 6-7

[Article by A.N. Komin, doctor of economic sciences, and editor's comment to the readership: "What Stands Behind the Indicator?"]

[Text] It was noted in the article entitled "On Revamping Administration of the Economy" (EKONOMICHESKAYA GAZETA, No 18) that further expansion of the economic independence and enhancement of the responsibility of enterprises presupposes that they be granted large rights in planning. This is most closely bound up with the question of the set of indicators which are to be assigned.

When the discussion turns on such important value indicators as gross output, commodity output, sales, or the cost per ruble of commodity output, then with references to the shortcomings of the setting of prices the question is quite often raised of the advisability of their use in planning. This approach seems incorrect. It is not possible to do without these indicators in economic planning computations, since they reflect the processes of reproduction and formation of costs from various angles. And the multiphase turnover of costs is inevitable in a highly developed social division of labor.

But the role of value indicators cannot be exaggerated, nor attempts made to attribute to them functions which are improper to them. For instance, neither gross output, nor commodity output, nor sales can serve as the indicator for evaluation of the final results of the activity of enterprises. But just as in the case of volume-value indicators, there is nowhere to go when one leaves them. These indicators are especially necessary at the national economic level. Growth rates of the volume of production, the distribution of the

social product, proportions in the national economy, and indeed many other indicators are determined on the basis of them.

The conclusion that value indicators are inapplicable in describing the volume of production at the enterprise level is quite often supported by the argument that the price structure varies from product to product, that is, material costs, wages, and profit have differing weights in the price structure. For that reason the level of the commodity output or sales per ruble of wages always varies from article to article, and this also depends on the proportions in the product mix. The indicator of normative net output was introduced in order to eliminate the influence of expenditures of past labor on volume-value indicators. But it has also been subject to criticism for the same reasons, since the ratio of profit to wages varies from product to product, and the NChP per ruble of wages is different. Structural shifts also influence the volume of NChP.

Is it possible to ensure in the indicators of normative net output a uniform ratio of profit to wages? Such an indicator could be created artificially. But the question is: Why? Perhaps then we ought to measure the volume of production simply in terms of wages; but this is after all absurd--measuring the volume of production and labor productivity in terms of an indicator which is secondary to them.

There are objective reasons for the differing profitability in the setting of prices, and it is therefore inevitable. After all, the price must be a reliable measure of the efficiency of expenditures, must take into account the technical level and other performance characteristics, and must stimulate the production of an efficient product. Differing profitability is also related to such factors as unequal rates of reduction of production costs from product to product and the differing level of production costs for one and the same product at different enterprises.

For example, a gas pumping unit at the Sumy Scientific Production Association has profitability of 64 percent relative to production cost (taking into account the 30-percent supplement). There is no question that this is a high level of profitability, but it is altogether deserved, since the production of this unit yields an immense economic benefit.

Cases occur in price setting practice when the approval of prices has to be rejected because of high costs and the product's inefficiency. Recently, for example, USSR Goskomtsen was compelled to refuse to register the temporary price of an air conditioner because its costs were unjustifiably high compared to those manufactured previously. Whether we like it or not, differing profitability is one of the principles in the expression of production efficiency.

To support a system of prices containing equal profit is to take up a position that is known to be unrealistic. Are such prices even necessary? They lose all economic sense, since they will not stimulate anything.

The purposive differentiation of profitability in the price system, its orientation, say, toward stimulation of technical progress, of quality, is another



matter. All value indicators are formed on the basis of prices containing different profitability and a different amount of profit. The main thing is that the prices be economically sound, that they reflect more fully socially necessary expenditures and the quality and performance characteristics of the product. The better the price system meets these requirements, the more reliable the indicators of gross output, marketed output, and profit will be.

#### Net Output and Profit

The shortcomings which have been noted in value indicators do not signify by any means that they need to be "liquidated." At the same time the possibility cannot be precluded of their replacement by some other indicators, for example, labor indicators. This problem has not as yet been sufficiently studied from the standpoint of its scale and its realism. The proposed physical indicators are not subject to summarization, they do not reflect quality and efficiency, and in that case it is impossible to correctly evaluate the volume of production. For instance, the measurement of rolled products and heavy equipment in tons outlived its usefulness long ago.

In acknowledging value indicators, we need, first, to restrict their number among the planning indicators which are broken down so that they do not duplicate and do not contradict one another. For example, in certain machinebuilding ministries the volume of production is evaluated in terms of gross output, labor productivity in terms of normative output, and cost per ruble in terms of commodity output. It is, of course, difficult to achieve linkage among these indicators.

Second, a selection has to be made from among value indicators of those which best meet the principles of evaluating enterprise performance on the basis of the final results. In our opinion net output and profit come closest to being such indicators.

The net output indicator is the basis of the national income, and the profit indicator is closely related to it, and this is important to solving the problems of increasing production efficiency. Many economists see shortcomings in profit as a success indicator because its dynamic behavior is influenced not only by production costs, but also by structural shifts in the product mix and the product list.

Of course, if profit dictates what is to be produced, that is bad. But we have to take into account the categories of profitability and unprofitability. In reality they are manifested contradictorily through all the diversity of economic conditions and situations. The interrelationship of the interests of society with those of enterprises cannot be achieved solely through an ideal system of prices or any other indicator. It is difficult to imagine that the economic interests of the producer and consumer will always coincide.

Profitability is ultimately the resultant of the interests of the producer and consumer on the basis of the rise of production efficiency, which must be achieved by the economic mechanism under whose conditions enterprises operate. The reduction of planned indicators and norms determined "from above" to the



indispensable minimum, and the expansion of economic independence of enterprises do in fact create favorable conditions for realizing the principle of profitability and efficiency at the level of the basic economic unit.

But in the present system of the economic mechanism the positions of the producer are at present still much more powerful than those of the consumer. That is why strengthening the role of the consumer has arisen here as such an urgent and acute problem. The consumer's desire must come first. Then, of course, the profit indicator will also be placed under control.

Strengthening the role of contract relations in the shaping of production plans and in evaluation of enterprise performance is likewise aimed at solving this problem.

When we speak about net output and profit as the preferable mandatory value indicators, we do not intend at all to raise them to the rank of the principal success indicators. The operation of enterprises cannot be evaluated by any one indicator. We are not bypassing here the interrelated set of indicators, among which fulfillment of the delivery plan is being raised to first place by practice. In certain production operations physical indicators may even be used for these purposes. In any case there has to be a differentiated approach that takes into account the specific nature of the individual branches.

Net output and profit could be taken as summary value indicators and broken down to associations and enterprises and linked to the rates used for building up funds. We should dwell especially on the problem of the multiplicity of indicators, on their duplication. At present between 200 and 300 indicators are planned for enterprises. Along with the physical indicators of the volume of production, they are assigned targets for reduction of standard allowances for consumption of labor, materials and fuel. But, as is well known, all of these indicators are reflected in the production cost, in profit, and in labor productivity. For instance, every year enterprises are assigned several dozen targets for reduction of standard rates of consumption of physical resources. Stocks for physical resources are determined in turn to take into account the targets for reduction of those standard rates. In addition, planning covers the indicator of material cost per ruble of commodity output, the size of the benefit resulting from application of scientific and technical measures, in which the targeted reduction of the standard allowances is also taken into account. This is fine if all these targets are linked together and recorded with the same sign, but if not, it is difficult to reconcile them at the level of the enterprise.

In our view there is no need for the indicator of cost per ruble of commodity output, which has long been in use, but has had no perceptible impact toward reduction of production cost. If enterprise profit is planned, then it is not necessary to target the indicator of production cost. After all, in essence they duplicate one another.

The effectiveness of using the indicator of cost per ruble of output is very problematical. Reduction of production cost must be stimulated by the entire economic mechanism.

## Price Reviews

Price setting and planning are very closely interrelated. That is why decisions in one or the other area cannot lie in different planes, much less run counter to one another. Prices are linked to the plan when wholesale prices are reviewed when in the course of current operation prices are set on new products. The problems of the economy which are to be solved in plans for economic and social development must be directly reflected in price levels and relations, in price supplements and reductions, and in the methods of compiling price lists.

The procedure now in effect for linking prices to the plan was advanced by economic practice itself. On the whole the system of prices is stable for the 5-year period, and a general review of prices takes place no more frequently than once every 5 years. The stability of prices as a requirement of the new economic mechanism guarantees the stability of plans and standard rates and allowances. It is this which affords the possibility of broadening economic independence of enterprises and organizations within the framework of stable standard rates and allowances.

The stricter requirements with respect to price stability, of course, put limits on flexibility in regulating them. But the ability of prices to influence production needs to be viewed in the context of the entire economic mechanism. Flexibility in the setting of prices must be expressed in the setting of prices on new products within the limits of the factors of efficiency.

One of the most difficult problems in price reviews and in the adoption of new prices is taking them into account in the plans of ministries, departments, enterprises, and organizations. The methods of converting plans from old prices to new prices and the linkage of plans at all levels are very complicated and time-consuming. Development of a simpler and more convenient method of introducing new prices and converting planning indicators will help to raise the level of planning.

### [Editor's Note] to Readers

In the articles published in *EKONOMICHESKAYA GAZETA* beginning with No 18 a discussion has been conducted on the problems of radical reform of the economic mechanism. The purpose of the discussion is to seek specific ways and methods of shaping an integral system for the conduct of economic activity whose basic outlines were defined by the decisions of the 27th CPSU Congress.

As the first responses have shown, readers have been showing an especially great interest on the one hand in the practical proposals aimed at broadening the independence of enterprises and at increasing their responsibility, and on the other to the problems of making centralized management more effective and changing its forms and methods to conform to the tasks of socioeconomic acceleration. They are interested in how the decisions already taken to improve the economic mechanism are being implemented in the agroindustrial complex, light industry, and other sectors and how the new management entities are functioning. The articles published on the setting of prices have brought numerous responses.

In the course of the discussion the need arose to examine in more detail the particular levers of the economic mechanism which are supposed to work for development of initiative and creativity and to enhance the role of the human factor in the economy.

In this context there is great interest in the practical conditions of the functioning of the economic mechanism based on the principles of self-financing, and the question has been raised of broader dissemination of the experience of self-financing in industry.

One major problem is to find the most optimum approach to devising the economic standards and allowances, which are the basis of the independence of enterprises in the area of planning and incentives. We need to continue the specific discussion of the problem of the strenuousness and stability of plans, of radical improvement of regional planning, of creation of the conditions so that it is organically unified with sectoral planning. Particular attention should be paid to the system of planned indicators and success indicators stimulating scientific-technical progress and production efficiency. It would also be wise to substantiate the optimum makeup of the targeted indicators at all levels of management--the ministry, the enterprise (association), the shop, and the brigade.

One urgent topic is to increase the material motivation to achieve higher final results. What needs to be done to eliminate the leveling approach to remuneration of work which has differing final effectiveness, how is the collective contract in industry to be made more effective, how should the setting of quotas and work incentives be improved in the context of the brigade organization of work, how is the effectiveness of competition to be increased, and how is better use to be made of nonfinancial incentives? A whole number of problems concerning improved organization of wages and the formation and use of economic incentive funds arise in this connection. As readers have written, the problem of optimum use of the resources of the production development fund, as the most important source for the continuous rise of the technical level of production and for retooling and reconstruction, has not been altogether solved in practice by any means.

The task was set at the 27th CPSU Congress of strengthening the influence of the financial and credit system toward higher economic efficiency. How is higher effectiveness of credit to be achieved, what is being financed when credit is granted on accounts receivable, how high should interest rates be, and what forms should the monitoring of the banks take? What is the role of the charge on assets? It would also be good to examine in more detail such questions as the effectiveness of price supplements and reductions, the code symbol "N," and negotiated prices, the recording of the actual benefit of new technology and its distribution between the consumer and the producer.

The discussion of the problems of radical revamping of the economic mechanism is continuing. The letters which the editors have been receiving from readers indicate that the questions that have been raised are of concern to many practitioners, scholars, and party and Soviet officials.

In addition to examining the general problems of revamping the economic mechanism, the remarks and proposals of readers based on particular experience in the conduct of economic activity also have particular value.

The editors make a special appeal to practitioners, to managers of enterprises and associations, to economists and to specialists in other professions, in fact to all those who have through experience worked out their own view of the problems of revamping the economic mechanism, inviting them to take part in the discussion and to send in specific proposals for improvement of the economic mechanism.

#### Incentives in Profit Distribution

Moscow EKONOMICHESKAYA GAZETA in Russian No 28, Jul 86 p 6

[Article by G. Bazarova, deputy director of the Scientific Research Financial Institute of USSR Minfin, doctor of economic sciences, and professor: "The Normative Method of Profit Distribution"]

[Text] In the context of self-financing, there is an increase in the role and significance of long term norms including wages as a lever through which society makes minimum normative demands on the efficiency of production funds. In the mechanism of profit distribution and payments into the budget there have been definite constructive changes in recent years related to the development of the new methods of conducting economic activity. But only the first steps have been taken in the necessary direction. In the article entitled "Toward an Integral System of Economic Activity" (EKONOMICHESKAYA GAZETA, No 21) the problem was correctly posed to the effect that the method of standard proportions in profit distribution is at present reflected only in the annual plan, that the standards have not yet taken on a long-term character. In our view there is also good reason to examine other possibilities for strengthening the stimulative effect of the mechanism of profit distribution.

#### Payments Into the Budget

Take, for example, the charge on assets. Its influence is being weakened at present by the extensive system of benefits. For instance, in a number of machinebuilding ministries (Minelektrotekhprom, Mintyazhmash, and others) a proportion even as high as 60 percent of the enterprises are exempted from this payment. The situation is similar in other sectors as well.

The supplemental charge on assets, which is payable on the value of above-allocation stocks of machinebuilding enterprises, has a still more narrow "field of operation." Moreover, this financial penalty does not apply to enterprises exempted from paying the base charge on assets.

As experience has shown, the standard deductions from calculated profit, which are the second basic payment, are not generating effective incentives for the rise of production efficiency either. By contrast with other economic standards, the rates for this payment are set only for 1 year. Moreover, these standard rates do not reach enterprises in the stage of the reference figures, but are assigned to them on the basis of annual balances of income and expenditures (financial plans) and take into account the proportion of profit that comes about in the plan and the needs for resources to finance planned



expenditures. Yet for most enterprises the stability of the rates is not maintained even within the year. The rates are repeatedly adjusted when the planning targets assigned are changed.

Thus the new procedure differs little from the previous collection of the uncommitted remainder of profit. Enterprises do not know even for the next year or two how much they will have to pay into the budget and what will be left at their disposition, and much less do they know this for the entire 5-year planning period.

The stimulative role of the charge on assets and of the standard deductions from calculated profit is also weakened by the insufficient linkage between payments into the budget and distribution of the remainder of profit. For instance, economic incentive funds of enterprises are not formed by direct deductions from the remaining profit, but by a considerably more complicated method, in many cases with respect to indicators that are detached from profit. The mechanism for the formation of these funds is complicated by numerous supplements, additions, and other supplemental conditions which take the system of fund formation still further from profit. As a result the growth rates of incentive funds at many enterprises exceed the growth rates of profit, which is, of course, undesirable.

The system of payments into the budget and of profit distribution under the new conditions of economic activity consequently retains many shortcomings of the old system in effect before the experiment. Yet it will hardly be able to play an active role in solving those new tasks which have been set by the 27th CPSU Congress related to strengthening the pressure of the financial and credit mechanism toward raising production efficiency and toward introduction of full cost accounting [khozraschet], the principle of pay-as-you-go, and self-financing. There is a need for a more thorough revamping of the system of payments into the budget and profit distribution; the role of long-term standard rates and allowances ought to be substantially strengthened.

#### The Charge on Assets

Two basic conceptions have been defined in the solving of this problem. In the first the revamping of the system of payments into the budget and profit distribution would be done on the basis of two payments out of profit--the charge on assets and deductions from calculated profit, with the corresponding supplements to them. In the second one payment would be in effect--the normative deductions from balance-sheet profit. Consequently, the watershed between these conceptions is the question of the charge on assets. Is it to be retained, or is it to be given up?

The positions are closer concerning other directions for improvement of the mechanism in effect for profit distribution; they have been largely predetermined by the experience of the Sumy NPO and the AvtoVAZ Association, which were converted to the principles of pay-as-you-go and self-financing.

Opponents of the charge on assets feel that in the context of the broad transition to the principles of self-financing this payment loses its economic



meaning. This point of view was also represented in the article "The Distributive Mechanism and Production Efficiency" (EKONOMICHESKAYA GAZETA, No 24). Advocates of this position suppose that since the development of production, its technical adequacy, and the social development of collectives are made fully dependent upon resources "earned," the need for standard payments on resources used disappears.

In actuality the situation is quite the reverse. Even under the conditions of full cost accounting enterprises only dispose of the means of production of which society as a whole, the state, remains the owner. The transfer of more substantial financial resources to the disposition of enterprises for the purpose of independent decisions on questions of technical improvement of production and reconstruction and the social development of collectives objectively necessitates a strengthening of society's economic monitoring over the efficiency of utilization of the resources allocated to economic units. The role and significance of long-term norms, including the charge on assets, as a lever imposing the minimal normative requirements of society on the level of efficiency of productive assets--which is the major portion of the national wealth--increase under the conditions of self-financing.

The transition to the principles of full cost-accounting self-financing substantially broadens the rights of enterprises in disposition of production resources. But there must also be a corresponding increase in economic accountability for the effectiveness of their utilization.

The cost-accounting principle of self-financing will operate in that direction, providing a motivation for efficient utilization of productive assets. But is that enough? Perhaps it is in fact sufficient for the largest associations, which have a high level of technical adequacy and organization of production, but not for a majority of the others.

The movement for resource conservation, for efficient use of all types of resources, should undoubtedly be given a strong thrust and should assume massive proportions. Economic incentives in the form of the charge on assets and other types of payments for resources are called upon to contribute actively to this.

Taking what we have said into account, there would seem to be good reason to choose the first of the conceptions referred to for development of payments into the budget and profit distribution. While the charge on assets would be retained and the sphere of operation of this financial lever would be broadened, in our opinion a number of fundamental changes ought to be made in the present system of profit distribution and payments into the budget. For instance, it would be advisable to establish differentiated rates of the charge on assets depending on the level of profitability, to establish long-term rates for transfers from calculated profit into the budget as well as into the centralized funds and reserves of the ministry. It also seems indispensable to introduce standard transfers from calculated profit of enterprises under union-republic jurisdiction into local budgets, which would strengthen the financial base of regional management entities.

The formation of economic incentive funds in the final stage of profit distribution should in our opinion be subject to standard rates established directly in percentages of the calculated profit remaining. And finally, the financial penalties for above-limit (above-plan) use of production resources could be expanded in the form of several supplemental payments.

#### The Tasks of the Immediate and More Remote Future

In our opinion the rates of the charge on assets could be differentiated as a function of the level of profitability on the basis of the relatively small number of rates, for example: 1, 3, 6, 9, 12, and 15 percent. The only rates in effect at present are 3 and 6 percent. Differentiation of the rates is in our opinion a form of coercion that results from the imperfectness of prices, from the insufficient flexibility of business relations and other shortcomings in the system of economic activity, which have also given rise to the substantial and economically unjustified spread in the level of profitability from enterprise to enterprise.

Under these conditions greater differentiation of the rates of the charge on assets makes it possible in our view to solve a number of problems. For instance, there would be more enterprises to which this payment would apply. The charge on assets would become more appreciable for those enterprises which at the present rates do not feel its pressure because of high profitability. There would also be a greater equalization of enterprises with respect to the size of calculated profit, which creates the conditions for establishing group rates of transfers from calculated profit wherever possible.

It is evident that in the future we might come back to the question of uniform rates of the charge on assets.

The transition to long-term rates of the deductions from calculated profit paid into the budget and their assignment to enterprise in the stage of reference figures will broaden the rights of enterprises in the field of financial planning. There would also be stronger incentives for carrying out medium-term programs for scientific-technical and social development. In our opinion it would be preferable to construct these rates in the form of group base rates with an incremental increase from year to year, as was envisaged for the Sumy NPO.

Realization of the idea of progressive rates of payments in the context of full cost accounting and self-financing and the transition to long-term rates governing relations with the budget make it possible at the same time to achieve priority for statewide interests and also to withdraw excessive resources which are built up at some enterprises.

The rate of growth of the rates of deductions from profit is determined by the conditions under which enterprises operate and by the problems they face. At the Sumy NPO this rate, for example, was 20 percent over the 5-year period. If branches were transferred to this kind of system of relations to the budget, it would seem advisable for all enterprises to be divided into three groups. They would be the progressive enterprises undergoing dynamic

development; enterprises that are average in their capabilities and performance; and the stragglers, the weaker ones. Each of these groups could be assigned its own rate of the annual increase of the rates: higher for the first group and the lowest ones for the third group.

Distribution of the calculated profit after payments to the budget might well conform to the following sequence. First for the formation of centralized funds and reserves of ministries. Second for formation of economic incentive funds and the financial reserve of enterprises.

#### Funds and Reserves

Within the components of centralized funds and reserves of the ministry particular attention is now being attracted to the reserve for financial aid. In our opinion its functions might be expanded. For example, the resources of the reserve might be used to grant subsidies to enterprises operating at a planned loss and enterprises with low profitability to finance planned expenditures. The subsidies might be awarded for a strictly definite period of time and might require the drafting of measures aimed at eliminating the loss in operation. Then the reserve would become a reliable instrument regulating redistribution of profit within the system on economically sound foundations. It would be good if practically all enterprises except for those with low profitability, not just the five or six with high profitability, as is now the case, were involved in building up the reserve for financial aid, as is the case with other centralized funds of the ministry.

Formation of enterprise economic incentive funds is the last stage in profit distribution. The experience of the Sumy NPO might serve as an example of the new approach to formation of these funds from the profit left to enterprises, and the experience of AvtoVAZ as an example of expansion of the functions of these funds.

For instance, the production development fund might well be made the source of financing not only for expenditures for retooling and reconstruction, but also outlays for science and technology, the growth of working capital, repayment of loans, and the payment of above-plan interest on credit, payments for above-allowance use of resources.

The material incentive fund ought to be used as the sole source of bonuses and gradually brought to that size where the bonuses and awards from it represent a sizable portion of the wage, for example, 25-30 percent.

The question has also been raised of the total number of standard rates in profit distribution. In our opinion, in order to expand the financial rights of enterprises in building up their own cost-accounting funds, this should be limited to two or three rates. One consolidated rate for deductions to centralized funds and the reserves of the ministry, another for formation of the production development fund, and possibly a third for the fund for social welfare and cultural programs and housing construction (if it is not unified with the material incentive fund).

Transfers to the material incentive fund and also to the financial reserve of the enterprise might well be done from the remainder of profit without the assignment of rates. The size of this fund might be regulated by means of standard relationships between the growth rates of the average wage and labor productivity. A surplus of resources on the basis of the results for the year would be credited to the state budget or would go to replenish sectoral financial reserves.

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CSO: 1820/180



## RESOURCE UTILIZATION AND SUPPLY

### GOSSNAB ORDER FOR RESOURCE ALLOCATION FOR REEQUIPMENT, MODERNIZATION

Moscow EKONOMICHESKAYA GAZETA in Russian No 18, Apr 86 p 23

[Text of "Order for Provision of Material and Technical Resources For Work on the Reequipment and Modernization of Existing Enterprises as well as for Construction of Facilities of Nonproduction Designation Carried out by Production Associations (Enterprises) by Means of the Economic Method with Capital from the Production-Development Fund, the Fund of Social and Cultural Measures and Housing Construction and Bank Credits"]

[Gossnab USSR and Gosplan USSR have approved the "Order for Provision of Material and Technical Resources for Work on the Reequipment and Modernization of Existing Enterprises as Well as for the Construction of Facilities of Nonproduction Designation Carried out by Production Associations (Enterprises) by Means of the Economic Method with Capital from the Production-Development Fund, the Fund of Social and Cultural Measures and Housing Construction and Bank Credits" (corresponding provisions on these funds published in EG, No 52, 1985 and No 8, 1986). The text of the enacted order is published below.

1. The present Order was worked out in connection with Decree No 669 of the CPSU Central Committee and the USSR Council of Ministers of 12 July 1985 "On the Widescale Spread of New Methods of Management and Strengthening of Their Influence on Accelerating Scientific and Technical Progress." It goes into effect beginning in 1987 and will apply to production associations (enterprises) whose material and technical supply is made available through the regional organs of the Gossnab USSR system.

2. In accordance with the present Order, material and technical resources are provided by operations specified in drafts of plans of reequipment and modernization of existing enterprises and the construction of housing and other facilities of nonproduction designation developed by production associations (enterprises) in conformity with sectoral methodological instructions worked out on the basis of methodological instructions on the manner of planning, projection, financing and material and technical support of capital construction for a ministry (department) operating under the new

conditions of management (Gossplan USSR letters of 11 November 1985 No LV-282/6-507 and of 20 December 1985 No LB-2161/6-579).

Work performed with the economic method by production associations (enterprises) on reequipment and modernization of existing enterprises and construction of facilities of nonproduction designation with capital of the production-development fund, the fund of social and cultural measures and housing construction and bank credits (1), which must be supplied with material and technical resources through regional organs of the Gosplan USSR system, should be considered work performed by units directly subordinated to the given production association (enterprise).

The volume of work performed by the forces of construction organizations (own contract) and provision of material and technical resources that are produced by central ministries and departments there does not include the work volume performed by units of production associations (enterprises) with capital from the production-development fund, the fund of social and cultural measures and housing construction and bank credits.

3. Provision of material and technical resources (with the exception of domestic [imennikovoye] and imported equipment, which is selected by pertinent ministries and departments) for work performed by production associations (enterprises) by the economic method with capital of the production-development fund, the fund of social and cultural measures and housing construction and bank credits is done by regional organs of the Gosplan USSR systems according to the products list of the state plan, Gosplan USSR, Gosplan USSR, ministries and departments on the basis of orders of production associations (enterprises) in conformity with project documentation.

Equipping the performers of the indicated work with construction machines and mechanisms, means of motor, railroad and water transport, fuels and lubricants is done by ministries and departments to whom the production associations (enterprises) are subordinated. In this connection, the ministries and departments determine their need for the indicated types of equipment, machines, means of transport, fuels and lubricants while taking into consideration the size of these operations.

4. Provision of metal structures, erection bars, ferroconcrete and carpentry items, nonstandard equipment, local and inert construction materials are required for performance of work relating to the reequipment and modernization of existing enterprises and construction of facilities of nonproduction designation is done according to conditions of direct agreements concluded by the actual production associations (enterprises) with the manufacturers of the indicated products. Where necessary, the solution of these questions is provided by the ministries and departments to whom these production associations (enterprises) are subordinated. At the same time, the conclusion of these agreements and performance of the work designated in them are carried out by manufacturing enterprises on a first-priority basis.

5. The material and technical support of the work performed by the contracting method with capital from the production-development fund, the fund of social and cultural measures and housing construction and bank credits by

construction ministries as well as construction organizations subordinated to other ministries and departments is done in accordance with a procedure specified by paragraph 21 of Decree No 387 of the CPSU Central Committee and the USSR Council of Ministers of 29 April 1984 and the Statute on the Manner of Providing Capital Construction with Materials, Items and Equipment Approved by Decree No 810 of the USSR Council of Ministers of 28 September 1970.

6. Production associations (enterprises) prior to 30 March of the year preceding the planned year provide union-republic gossnabs and the main regional administration of Gossnab USSR for the place of their location with:

a draft of the plan of reequipment and modernization of existing enterprises and construction of facilities of nonproduction designation with capital of the production-development fund, the fund of social and cultural measures and housing construction and bank credits performed with the economic method (2);

intrabuilding title lists for the planned year approved according to prescribed procedure;

a statement of the need for materials for each facility (separately according to the products list of the state plan, Gosplan USSR, Gossnab USSR, ministries and departments), order specifications for equipment, closing fittings [zapornaya armatura], cable and conductor items, instruments, special materials and other products and technical documentation for placing orders for their production worked out in conformity with GOST 21.109-80 by planning organizations as well by planning and design departments, bureaus and other subdivisions of production associations (enterprises) which were granted the right to carry out planning work for reequipment and modernization. A ready need for equipment and materials is indicated for each facility in accordance with production-work schedules (3).

At the same time, production associations (enterprises) notify the proper ministries and departments on the declared need for equipment and materials of the list of the state plan and Gosplan USSR;

approved plans of organization of construction and plans of work production with a breakdown by years of construction;

documents confirming the allotment of funds for domestic [imennikovoye] and imported equipment for the planned year as well as documents on the opening of financing and issue of credits by banks;

documents confirming the decision of ispolkoms of local soviets of people's deputies on assignment of land plots for the construction of facilities of nonproduction designation.

7. Union-republic gossnabs and main regional administrations of Gossnab USSR check on the validity of the need presented by production associations (enterprises) for material resources and orders for equipment in accordance with planned documentation and compile on their basis consolidated data on the volume of work and requirements for materials, products, special materials and equipment as a whole with a breakdown by USSR ministries and departments and

councils of ministries of union republics in a sectoral context and present up to 25 April of the year preceding the planned year to:

the Supply and Rational Utilization of Material Resources in Construction Administration of Gosplan USSR--consolidated data for materials on the basis of the list of the USSR Council of Ministers and Gosplan USSR as well as consolidated data on work volume;

pertinent supply and sales main administrations attached to Gosplan USSR--consolidated requirements for equipment, materials and items according to the list of products distributed by them;

the Heat Enterprises Main Administration attached to Gosplan USSR--consolidated requirements for equipment, fittings, cables and other items of the list of the USSR Council of Ministers and Gosplan USSR as well as for materials and items for the fabrication of nonstandard equipment;

the Machine Building Products for Public and Domestic Uses Main Administration attached to Gosplan USSR--consolidated requirements for products produced and distributed by ministries and departments (with the exception of products sold by other supply and sales main administrations).

Requirements for stainless steel, structural and tool steels and acutely scarce nonferrous metals and their alloys are received from production associations (enterprises) by union-republic gosplans and main regional administrations of Gosplan USSR given the permission of the Interdepartmental Commission for Economy and Rational Utilization of Stainless Steels for their utilization in accordance with the Statute affirming Decree No 26 of Gosplan USSR of 1 March 1984 and for rolled titanium--in the presence of a confirmation and conclusion of the All-Union Institute of Aviation Materials of the USSR Ministry of Aviation Industry on the technical feasibility of its use.

8. The need for materials for the reequipment and modernization of existing enterprises and construction of facilities of nonproduction designation carried out by the economic methods is determined while taking into consideration carry-over stocks established for capital construction.

9. Gosplan USSR, on the basis of orders presented by union-republic gosplans and main regional administrations of Gosplan USSR prior to 20 June of the year preceding the planned year, presents to Gosplan USSR consolidated data on the work volume and on the need for material and technical resources of the list of the USSR Council of Ministers and Gosplan USSR for performance of the work being done by production associations (enterprises) by the economic method with capital of the production-development fund, the fund of social and cultural measures and housing construction and bank credits for USSR ministries and departments and union-republic councils of ministers in the sectoral context.

The Machine Building Products for Public and Domestic Uses Main Administration attached to Gosplan USSR in accordance with prescribed procedure sends to the proper USSR ministries and departments and union-republic councils of



ministers consolidated data on the need for material resources distributed by them which are required for carrying on the said work.

10. Gosplan USSR specifies allocation to Gossnab USSR in projects of state plans of economic and social development of the USSR on a separate line material and technical resources for work performed by production associations (enterprises) by means of the economic method with capital of the production-development fund, the fund of social and cultural measures and housing construction and bank credits in the full amount of the need determined by regional organs of Gossnab USSR on the basis of orders of production associations (enterprises) in conformity with project documentation and concerning allotted funds prior to 15 August of the year preceding the planned year and notifies Gossnab USSR.

USSR ministries and departments and union-republic gosplans designate in drafts of plans on a separate line the full amount of products according to the list distributed by them for ensuring work on reequipment and modernization of existing enterprises and construction of facilities of nonproduction designation in conformity with declared requirements and at the same time notify the Machine Building Products for Public and Domestic Uses Main Administration attached to Gossnab USSR on the funds allocated for the said products.

Supply and sales main administrations and the Heat Enterprises Main Administration (Soyuzglavteplotekomplekt) attached to Gossnab USSR provides on a separate line in drafts of plans allocation of the full amount of products according to the list distributed by them for carrying on the indicated work and at the same time report on the allocated funds to union-republic gossnabs and the main regional administrations of Gossnab USSR.

11. Gossnab USSR after receiving from Gosplan USSR, USSR ministries and departments and union-republic councils of ministers appropriate excerpts from drafts of plans for distribution of products reports before 15 September of the year preceding the planned year on allocated funds to supply and sales main administrations attached to Gossnab USSR, union-republic gossnabs and main regional administrations of Gossnab USSR.

12. Supply and sales main administrations and the Heat Enterprises Main Administration attached to Gossnab USSR, union-republic gossnabs and main regional administrations of Gossnab USSR on the basis of specified orders of production associations (enterprises) provide scheduled ordering of materials and equipment with an indication of the designated purpose in the orders (plan documents) for shipment of products according to schedules set by the Statute on Delivery of Products of Production Designation and Special Conditions of Delivery of the Appropriate Types of Products.

13. Union-republic gossnabs, main regional administrations of Gossnab USSR, supply and sales main administrations, the Heat Enterprises Main Administration and main administrations for supplying industries [soyuzglavkomplekty] attached to Gossnab USSR and production associations (enterprises) carry out separate accounting of material and technical resources allotted for their use for the performance of work relating to

reequipment and modernization of existing enterprises and construction of facilities of nonproduction designation with capital of the production-development fund, the fund of social and cultural measures and housing construction and bank credits performed by production associations (enterprises) by means of the economic method.

For the purpose of exercising control over the use of material and technical resources allocated for the indicated purposes, regional organs of the Gosplan USSR system open up personal accounts for each facility being constructed or modernized of a production association (enterprise).

Production associations (enterprises), union-republic gosplans and main regional administrations of Gosplan USSR are making an inventory of remains of materials and equipment allotted for the indicated purposes for 1 January of the planned year according to a procedure established by the USSR Central Statistical Administration.

14. The creation and presentation of necessary data for determination of requirements for material and technical resources for performance of work relating to reequipment and modernization of existing enterprises and construction of facilities of nonproduction designation by means of the economic method with capital of the production-development fund, the fund of social and cultural measures and housing construction and bank credits are done according to instructions of Gosplan USSR in conformity with the procedure and forms designated by the Unified System of Planning Capital Construction (YeSPKS) and the Unified Supply System for Capital Construction (YeSSKS).

15. USSR and union-republic ministries and departments possessing their own system of material and technical supply develop on the basis of the present Order a proper procedure for providing material and technical resources for work relating to reequipment and modernization of existing enterprises and construction of facilities of nonproduction designation performed by production associations (enterprises) by means of the economic method with capital from the production-development fund, the fund of social and cultural measures and housing construction and bank credits applied to a sector (republic).

#### FOOTNOTES

1. Credits are issued by banks in case of insufficient money in the production-development fund, the fund of social and cultural measures and housing construction for accomplishment of planned work relating to reequipment and modernization of existing enterprises and construction of facilities of nonproduction designation.
2. By this time, pertinent ministries and departments to which production associations (enterprises) are subordinated adopt a decision on carrying out the work designated by the plan of reequipment at an estimated cost of 4 million rubles or more for enterprises of heavy-industry sectors and 2.5 million rubles or more for enterprises of other industrial sectors and

settle the question of volume adopted in plans of contracted work and of selection of domestic [imennikovoye] and imported equipment.

3. The existing Order established by Decree No 117 of Gosplan USSR of 29 December 1981 will be retained temporarily in 1987 for industrial sectors now being supplied by Machine Building Products for Public and Domestic Uses Main Administration attached to Gosplan USSR.

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